

Message Text

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42

ACTION EB-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FEAE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 IO-14 USIE-00 OPIC-12 DRC-01 IGA-02 SSO-00

NSCE-00 INRE-00 PA-04 PRS-01 /242 W

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O R 021542Z OCT 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 6130

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY DHARAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS CARACAS 9768

EO 11652 NA

TAGS: ENRG, EFIN, VE

SUBJ: VENEZUELA INCREASES OIL COMPANY INCOME TAX RATE

REF: A. CARACAS 9382; B. CARACAS 9142; C A-224

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1. MINES AND HYDROCARBONS MINISTER VALENTIN HERNANDEZ

ANNOUNCED OIL COMPANY TAX INCREASE TO PRESS FOLLOWING CONCLUSION WEEKLY CABINET MEETING OCT 1. COMPANY INCOME TAX RATE IS INCREASED BY 3.5 PERCENT TO NEW LEVEL OF 63.5 PERCENT AND WILL BE APPLIED RETROACTIVE TO JAN 1, 1974.

2. MINISTER ESTIMATED ADDITIONAL REVENUE FOR VENEZUELA THIS YEAR FROM TAX INCREASE WILL BE ONE BILLION, SEVEN HUNDRED AND THIRTY FOUR MILLION BOLIVARS (US\$413 MILLION CONVERETED AT PETROLEUM DOLLAR RATE OF BS 4.20). WITH NEW TAX FORMULA, AVERAGE PER BARREL PRICE OF OIL WILL BE US \$10.14, OF WHICH GOV WILL REALIZE \$9.06 AND THE OIL COMPANIES \$1.08. SINCE GOV PREVIOUSLY REALIZED APPROXIMATELY \$8.65 PER BARREL, NEW TAX WILL GENERATE ADDITIONAL 41 US CENTS PER BARREL REVENUE.

3. NEW TAX RATE WAS MADE RETROACTIVE, ACCORDING TO MINISTER, TO PREVENT OIL COMPANIES FROM PASSING ON TO CONSUMER, AT LEAST FOR FIRST NINE MONTHS 1974, THEIR HIGHER TAX COST. MINISTER CONCEDED SOME PORTION OF FINAL QUARTER 1974 COST MAY BE PASSED ON BY OIL COMPANIES, THE ACTUAL AMOUNT WILL DEPEND ON WHAT CONTRACT ARRANGEMENTS THE COMPANIES HAVE IN EFFECT WITH THEIR CUSTOMERS.

4. ADDITIONAL \$413 MILLION REVENUE ESTIMATED FOR 1974 WOULD BE EQUIVALENT TO TAX RATE INCREASE OF 18.5 PERCENT IF TAX WERE BEING APPLIED ONLY FOR FOURTH QUARTER OF YEAR, AS CALLED FOR IN OPEC SEPTEMBER MEETING, MINISTER STATED.

5. NEW TAX CANNOT BE VIEWED AS VENEZUELAN REACTION TO US GOVT HARD LINE ON WORLD OIL PRICES, SINCE BASIC DECISION BY GOV TO INCREASE TAX RATE WAS TAKEN AT OPEC MEETING IN QUITO LAST JULY, ACCORDING TO MINISTER.

6. OIL COMPANIES ISSUED NO PUBLIC STATEMENTS IMMEDIATELY FOLLOWING ANNOUNCEMENT, BUT PRIVATELY ONE SENIOR OIL OFFICIAL REGISTERED DEEP GLOOM, STATING COMPANY'S WORST FEARS HAD BEEN REALISED. PETATT HAS APPOINTMENT WITH CHIEF PETROLEUM ECONOMICS, AND OPEC GOVERNOR FLORES FOR MORNING, OCT 3. FURTHER ASSESSMENT WILL FOLLOW.
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